

HIGHER EDUCATION

Overview

FIGURE HIED-1

Higher Education Funding Total and General Funds (Dollars in Millions)

	2002-03	2003-04	2004-05	One-Year Change Amount	Percent
University of California^{1/}					
Total Funds	\$4,418.5	\$4,519.5	\$4,505.7	-\$13.8	-0.3%
General Fund	3,150.0	2,868.2	2,670.5	-197.7	-6.9%
California State University^{1/}					
Total Funds	3,525.9	3,677.2	3,587.9	-89.3	-2.4%
General Fund	2,697.1	2,622.5	2,409.6	-212.9	-8.1%
Community Colleges					
Total Funds	6,640.7	6,360.9	6,866.9	506.0	8.0%
General Fund & P98 ^{2/}	4,860.5	4,485.4	4,900.6	415.2	9.3%
Student Aid Commission					
General Fund	569.0	630.2	684.0	53.8	8.5%
Other Higher Education^{3/}					
Total Funds	180.6	211.6	318.9	107.3	50.7%
General Fund	165.0	191.9	293.6	101.7	53.0%
Total Funds	\$15,334.7	\$15,399.4	\$15,963.4	\$564.0	3.7%
General Fund	\$11,441.6	\$10,798.2	\$10,958.3	\$160.1	1.5%

^{1/} For purposes of this table, expenditures for the University of California and California State University have been adjusted to include the offsetting general-purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.

^{2/} For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue, as a component of the State's obligation under Proposition 98.

^{3/} Other Higher Education includes the California Postsecondary Education Commission, Hastings College of the Law, and General Obligation Bond Interest and Redemptions for UC, CSU, and Hastings.

Notwithstanding the fiscal constraints associated with the significant structural imbalance inherited by the Administration, the Governor's Budget for higher education continues to recognize the significant contributions and benefits to society from broad access to higher education at the University of California (UC), the California State University (CSU), and California's Community Colleges (CCC).



Although it is necessary to reduce General Fund spending in both UC and CSU and curb unsustainable financial aid program growth, negative effects to core instructional programs are minimized through adoption of prudent fee increases, improved efficiency, and reductions to non-instructional programs. The Proposition 98 guarantee affords the ability to increase spending for CCC compared to the current year. Extra growth funding is provided to maintain access and accommodate expected new freshmen enrollments deferred from other segments, and funding also is provided for incentives that will assist students in transferring to the UC and CSU at a later date.

Significant policy changes reflected in the Budget include the following:

- **New Long-Term University Fee Policy**—This policy links future undergraduate and graduate fee increases to the change in per-capita personal income, but provides the ability to increase fees annually by no more than 10 percent. The graduate fee policy would increase at rates in excess of undergraduates until a 50 percent differential is achieved, which reflects the higher cost of instruction for these programs and the added benefit to those students afforded through advanced degrees. In this respect, fees are increased 10 percent for undergraduates and 40 percent for graduate students in the budget year. This new long-term policy will ensure that public university students are protected from future dramatic fee increases as a consequence of declines in General Fund resources.
- **Reduced Subsidy for Professional Students**—This policy proposes a 25 percent reduction to the current level of subsidies offered to professional students at UC and Hastings College of the Law (HCL), recognizing that most professional school graduates achieve significantly higher income levels after graduation than other graduates. Concurrently, the UC and HCL will be given maximum flexibility to determine the fee level for each profession that best addresses all factors including increasing fees to comparable public or private school levels and recognizing competitive factors, the State's need for certain professions, the cost of instruction, the current subsidy level, and the potential earnings for each specific professional school.

- **Eliminate Subsidy for Excess Units**—Students that take more than 110 percent of the required units necessary to achieve their major degree would pay the full cost for those extra courses. To avoid major hardships for existing students and allow the segments sufficient time to notify students of the new policy, the Administration proposes to phase in this provision over the next five years. The policy would also give the segments maximum flexibility to apply this principle to graduate level instruction.
- **Community College Fees**—California has the lowest fee in the nation, and holders of advanced education degrees pay the same fees as undergraduate students. California's low fee level also does not allow students to maximize federal Pell Grants and tax credits that would fully cover the costs of higher fees. The Budget therefore proposes to increase fees for undergraduates to \$26 per unit and to \$50 per unit for degree holders. The proposed fee level for undergraduates likely will remain the lowest in the nation, and the fees for degree holders will be significantly less than the average fees charged to community college students in other states.
- **Shift 10 percent Freshmen Enrollment to CCC**—Given current funding constraints, access to UC and CSU cannot be guaranteed for as many students as in the past. Nonetheless, because the CCC provides quality undergraduate instruction at significantly lower cost than UC or CSU, the CCC will be asked to accommodate the additional enrollments as a priority and are funded to do so. Further, the Administration proposes incentives for students accepting entry into a new dual enrollment program with CSU and UC, including CCC fee waivers and additional counseling and guidance services administered by UC and CSU to ensure successful transfer upon completion of lower division work.

The Administration's long-term student fee policy and other policy changes will have minimal effects on low-income students. Qualifying low-income students will continue to be eligible to receive federal Pell Grants and Cal Grants, and California's higher education segments will continue to provide financial aid to needy students. In addition, both UC and CSU will set aside 20 percent of their new fee revenue for financial aid, and CCC fee waivers will en-

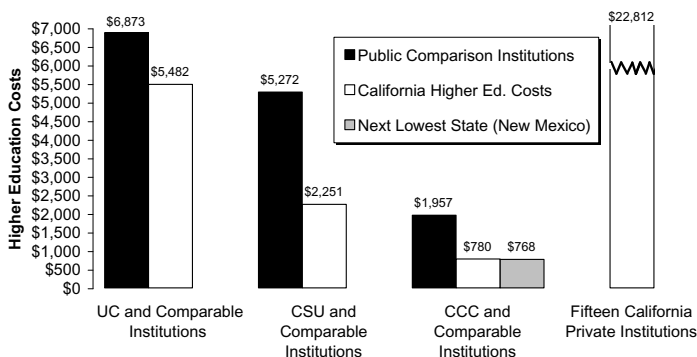


sure that needy students do not pay fees. Despite the fee increases proposed by the Administration, it is expected that California's fees will remain significantly below the average of comparable institutions, with the CCC system likely remaining the most affordable system in the nation (see Figure HIED-2).

Although the Governor's Budget contains no new funding for enrollment increases at UC or CSU due to the Legislature's direction in the 2003 Budget and the Administration's proposal in this Budget to reduce new freshmen enrollment by 10 percent, CCC enrollment is projected to increase by 33,000 students, for a total overall higher education enrollment of almost 1.7 million full-time equivalent (FTE) students.

FIGURE HIED-2

Proposed Fee Levels Remain Low at California's Public Higher Education Institutions Compared to Tuition Levels in Other States and California's Private Institutions



Fees for UC and CSU include the proposed 2004-05 10 percent increase. CCC fees reflect the proposed increase from \$18 per unit to \$26 per unit. Comparable institution data for UC and CSU reflect 2003-04 fee levels, while comparable CCC data are based on 2002-03 fees. The fees for UC and CSU include systemwide fees, only, and do not include campus-based fees of \$546 and \$526, respectively, because it is unknown whether similar fees are included in the comparable institution fee levels.

University of California

The Governor's Budget provides total funding from all sources of \$4.5 billion for UC, a decrease of \$13.8 million or 0.3 percent below the 2003-04 level. This funding includes \$2.7 billion in General Fund resources, reflecting a reduction of \$197.7 million or 6.9 percent below 2003-04, which reflects a 2003-04 mid-year General Fund spending reduction of \$29.9 million to UC's 2003-04 budget.

The Governor's Budget proposes the following General Fund reductions for 2004-05:

- \$45.4 million reduction to Academic and Institutional Support.
- \$35.2 million by increasing the student-to-faculty ratio by approximately 5 percent.
- \$33.3 million by eliminating General Fund support for outreach activities.
- \$24.8 million by reducing by 10 percent the enrollment of new freshmen, resulting in approximately 3,200 fewer FTES.
- \$14.3 million by eliminating General fund support for the Digital California Program.
- \$11.6 million by reducing General Fund support for research by 5 percent.
- \$4 million by eliminating General Fund support for the Multi-Campus Research Units for Labor Studies.

Additionally, the following reductions are included which will be offset through higher fees or changes in student behavior:

- \$62.9 million through a 10 percent increase in the undergraduate fee.
- \$57.7 million through a 40 percent increase in the graduate fee.
- \$42.6 million by decreasing by 25 percent the General Fund subsidy for students in professional school programs other than nursing.
- \$32.6 million through a 20 percent increase in the surcharge for out-of-state students.
- \$9.3 million for the first phase of eliminating the General Fund subsidy for students who exceed by more than 10 percent the minimum number of units required to earn their degree.



The Governor's Budget also proposes the following significant General Fund augmentations for UC:

- \$80.5 million to restore the one-time unallocated reduction implemented in 2003-04.
- \$10 million in one-time funding for costs associated with making the UC Merced campus operational in 2005-06.
- \$34.4 million for increases in annuitant health and dental benefit costs.
- \$1.6 million to provide counseling services to otherwise UC-qualified freshmen who may enroll in a CCC as a result of the proposed 10 percent reduction in new freshmen.

California State University

The Governor's Budget provides total funding of nearly \$3.6 billion for CSU, a decrease of \$89.3 million or 2.5 percent below the 2003-04 level. The funding level includes \$2.4 billion in General Fund resources, a reduction of \$212.9 million or 8.1 percent below the 2003-04 level, which reflects a 2003-04 mid-year General Fund spending reduction of \$23.7 million to CSU's 2003-04 budget.

Although the General Fund reductions proposed for CSU are similar to those proposed for UC, the net impact on CSU is less, since CSU also is receiving a significant General Fund augmentation for increased PERS costs. UC's PERS augmentation is considerably less, since most of its employees do not participate in PERS.

The Governor's Budget proposes the following General Fund reductions for 2004-05:

- \$52.6 million reduction to Academic and Institutional Support, which equates to approximately a 7.5 percent reduction for these functions.
- \$53.5 million by increasing the student-to-faculty ratio by approximately 5 percent.
- \$52 million by eliminating General Fund support for outreach activities.

- \$21 million by reducing by 10 percent the enrollment of new freshmen, resulting in approximately 3,800 fewer FTES.
- \$6 million by deferring 10 percent of General Fund support for the Common Management System.

Additionally, the following reductions are included that will be offset through higher fees or changes in student behavior:

- \$47.4 million by increasing undergraduate fees by 10 percent.
- \$37.9 million by increasing graduate fees by 40 percent.
- \$24.4 million for the first phase of eliminating the General Fund subsidy for students who exceed by more than 10 percent the minimum number of units required to earn their degree.
- \$16.2 million by increasing by 20 percent the surcharge for out-of-state students.

The Governor's Budget also proposes the following significant General Fund augmentations for CSU:

- \$155 million for increased PERS retirement contribution costs beginning in the current year.
- \$69.5 million to restore the one-time unallocated reduction implemented in 2003-04.
- \$1.9 million to provide counseling services to otherwise UC-qualified freshmen who may enroll in a CCC as a result of the proposed 10 percent reduction in new freshmen.

California Community Colleges

The Governor's Budget includes nearly \$6.9 billion from all sources for the CCC, representing an 8 percent increase over 2003-04 funding levels. This funding includes \$4.9 billion from the General Fund and Proposition 98 sources, up \$415.2 million or 9.3 percent over 2003-04 levels, and raises the CCC share of the Proposition 98 guarantee over 10 percent.



The Budget also reflects limited categorical reforms that increase available discretionary funding, minimize administrative burdens, and maintain accountability for state priority student outcomes. The proposed program consolidations are based either upon programs currently having similar funding mechanisms or related purposes, and will allow each CCC district to better address its own unique needs, student populations, job environments, and local expectations.

The following significant Proposition 98 adjustments are included in the Governor's Budget:

- \$125.1 million augmentation for enrollment growth of 3 percent, exceeding the statutory growth requirement of 1.83 percent. This funding will provide access for an additional 33,000 FTE students, for a total of 1.137 million FTE students in 2004-05. Additionally, attrition savings anticipated as a result of fee increases are not captured, allowing districts the flexibility to provide instruction and services to additional students.
- \$80 million for equalization, to reduce disparities between districts currently funded below the 90th percentile of per-FTE funding systemwide through an allocation formula consistent with the one used for K-12 districts.
- \$91 million reduction, to be offset by proposed fee increases for undergraduates and holders of advanced educational degrees.
- A permanent reduction of \$1.87 million and 32.5 positions from the Chancellor's Office, beginning in 2003-04, pursuant to the requirements of Control Section 4.10 of the 2003 Budget Act.

Financial Aid Programs

The Governor's Budget provides \$684 million General Fund for the California Student Aid Commission's financial aid grant programs in 2004-05, an increase of almost \$53 million after the 2003-04 mid-year spending reduction proposal is considered. The mid-year proposal includes General Fund Cal Grant reductions of \$50 mil-

lion for the current year, reflecting estimated savings in the cost of awards from the amount estimated in the 2003 Budget Act. The augmentations proposed for 2004-05 are as follows:

- \$43.7 million for growth in the Cal Grant Program, reflecting a net \$93.7 million year-to-year increase from the revised 2003-04 level projected by the Commission.
- \$2.1 million for growth in the Assumption Program of Loans for Education Program (APLE) and Law Enforcement Personnel Dependents Program.

To help control the rapid growth in costs of Cal Grants and other financial aid programs in context of the current fiscal situation, the Governor's Budget also proposes the following reductions and policy changes:

- \$32.7 million by reducing the maximum Cal Grant award for students at private colleges and universities from \$9,708 per year to \$5,482 per year—equivalent to what the annual undergraduate fee will be at UC, after the proposed 10 percent increase takes effect in 2004-05. This proposal would not affect recipients who received an award issued before 2004-05.
- \$11.2 million by reducing by 10 percent the maximum allowable income for Cal Grant recipients. This proposal would not impact recipients who received an award issued before 2004-05.
- The Administration proposes to decouple Cal Grant awards from the tuition levels at UC and CSU. Otherwise, following current policy would require that Cal Grant awards be increased to cover the proposed undergraduate fee increases proposed for UC and CSU. This avoids approximately \$23.6 million in additional General Fund costs in 2004-05.
- The Governor's Budget reduces the number of APLE warrants from 7,700 to 3,500, consistent with the proposed change in the 2003-04 Mid-Year Spending Reduction Proposal. Reducing the annual number of new awards will save out year costs of as much as \$46 million for each cohort as the warrants are redeemed.

